

STAFF CROSS  
EX 2- Seitz

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

South Beloit Water, Gas & Electric Company :  
 :  
 : 97-0088  
 :  
 Petition for Authorization to Modify the :  
 Current Contract for Gas Services :  
 between Petitioner and Wisconsin :  
 Power & Light Company. :

ORDER

By The Commission:

On February 3, 1997, South Beloit Water, Gas & Electric Company ("Petitioner" or "SBWGE") filed a petition requesting Illinois Commerce Commission ("Commission") authorization to modify the current contract for natural gas service between Petitioner and Wisconsin Power & Light Company ("WPL"). SBWGE is a wholly-owned subsidiary of WPL. WPL is SBWGE's sole supplier of metered natural gas service under the terms of a contract for natural gas previously approved by the Commission.

Pursuant to notice, as required by law and the rules and regulations of the Commission, hearings were held before a duly authorized Hearing Examiner of the Commission at its offices at its offices in Chicago, Illinois on March 18 and April 22, 1997. Appearances were entered by counsel on behalf of Petitioner and by members of the Accounting and Planning and Operations Departments of the Commission's Public Utilities Division ("Staff"). At the conclusion of the hearing on April 22, 1997, the record was marked "Heard and Taken".

Petitioner provides natural gas service to the City of South Beloit, the Village of Rockton, and parts of the Townships of Durand, Laona, Rockton and Roscoe in Winnebago County, Illinois; and parts of the Townships of Rock Grove and Rock Run in Stephenson County, Illinois.

OFFICIAL FILE

ILL. C.C. DOCKET NO. 03-0676 / 0677

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Witness \_\_\_\_\_

May 5/19/04 Reporter CB

WPL is SBWGE's sole supplier of metered natural gas service. The gas service is not metered at the locations where it crosses the state border lines. Due to the relatively small size of the SBWGE property, it is uneconomical for SBWGE to maintain an organization of personnel and needed resources for operating and maintaining said properties. Further, WPL can efficiently perform such needed services. In the interest of economic efficiency and to lower overall costs and rates to customers of both utilities, SBWGE and WPL have entered into a *Contract for Gas* (hereinafter, "Agreement"), which specifies how costs of natural gas supply and other expenses shall be allocated between the respective utilities. The current Agreement was executed in the early 1980's, following authorization by the Commission, pursuant to its authority under the Illinois Public Utilities Act.

Mr. Marc Nielsen, Petitioner's Gas Pricing Administrator, testified that since the current Agreement was entered into, the conditions under which WPL purchases gas services from wholesale suppliers have changed significantly, and it is therefore appropriate to change the current Agreement Formula 1 to reflect these changes. Mr. Eric Mott, Petitioner's Senior Cost Accounting Analyst, proposed clarifications to current formulae which allocate certain non-gas-supply related costs such as distribution, customer service, sales promotion, general, administrative and rental expenses, and rate base allocated to Petitioner. These formulae were also modified as necessary to reflect the availability of end-user transportation. Mr. Mott originally proposed a change to Formula 6 (rental expense), but after consultation with Staff agreed that the original formula (simply clarified and with recognition of end-user transportation) should be used in the proposed Agreement. Petitioner submitted Late Filed Exhibit 4, which is a final-form version of the proposed Agreement. Mr. Mott further testified that Formulae 2 through 5 involve only expenses for which Petitioner is not directly billed by any entity other than WPL, whereas Formulae 6 and 7 are related to expenses for which Petitioner may receive direct bills from other entities and in the case of Formula 8 may have rate base specifically identified as located in Petitioner's service territory.

At the hearing, Mr. K. Allen Griffy, member of the Accounting Department of the Commission's Public Utilities Division ("PUD") stated that Staff reviewed Petitioner's filing and believed the proposed changes to be reasonable, premised on Mr. Mott's testimony withdrawing a proposed change to Formula 6. Mr. William Riley, member of

the Planning and Operations Department of the PUD, stated that Petitioner's proposed filing appeared reasonable. Staff has reviewed Late Filed Exhibit 4, and do not object to Petitioner and WPL executing the Agreement in the form shown.

The Commission, having given due consideration to the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) Petitioner, South Beloit Water, Gas & Electric Company, is engaged in the distribution of natural gas to the public in Illinois and is a public utility as defined in the Public Utilities Act;
- (2) the Commission has jurisdiction over Petitioner and of the subject matter of this proceeding;
- (3) the statements of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) the evidence indicates that changes to Petitioner's current Agreement, including Formulae 1 - 8, and as embodied in Late Filed Exhibit 4, are just and reasonable;
- (5) it is reasonable that Petitioner modify its current *Agreement for Gas* with Wisconsin Power & Light Company.

IT IS THEREFORE ORDERED that Petitioner South Beloit Water, Gas & Electric Company is authorized by the Commission to execute a new *Agreement for Gas*, in the same form and substance as that found in Late Filed Exhibit 4, between Petitioner and Wisconsin Power & Light Company.

IT IS FURTHER ORDERED that Petitioner shall file a copy of the newly executed Agreement for Gas with the Commission within 20 days of executing said Agreement.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 11<sup>th</sup> day of June 1997.

(SIGNED) DAN MILLER

Chairman

(S E A L)

CONTRACT FOR GAS

THIS AGREEMENT, made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_\_\_, by and between Wisconsin Power & Light Company, a Wisconsin public utility corporation hereinafter called the Wisconsin Company, and South Beloit Water, Gas and Electric Company, an Illinois public utility corporation hereinafter called the Illinois Company;

WITNESSETH:

WHEREAS, the parties hereto are affiliated corporations with all of the outstanding capital stock of the Illinois Company being owned by the Wisconsin Company; and,

WHEREAS, the Wisconsin Company furnishes gas service to the public in the City of Beloit and surrounding Rock County, Wisconsin and the Illinois Company furnishes gas service to the public in areas in Illinois adjacent to the area served by the Wisconsin Company including the City of South Beloit, Village of Rockton and surrounding parts of Winnebago County, and may serve other areas of Illinois near the Illinois-Wisconsin state border conditioned upon Illinois Commerce Commission authorization. The City of South Beloit, Illinois, immediately adjoins the City of Beloit, Wisconsin, separated only by the state border line running down the center of a paved street. Residences and business establishments on the Illinois side and Wisconsin side receive gas service from pipes connected to and supplied through a single gas main running along that street. The gas distribution systems of the respective companies are connected at several points along the state border line, and, physically, the entire Beloit-South Beloit-Rockton area is served by a single

integrated gas distribution system, the only separation being the location in different states; and,

WHEREAS, gas service is not metered at the locations where it crosses the state line, but is measured by meters measuring such energy as is delivered to customers or used by the utility; and,

WHEREAS, due to the relatively small size of the Illinois Company property, it is uneconomical for the Illinois Company to maintain an organization of personnel and needed resources for operating and maintaining said properties; and,

WHEREAS, the Wisconsin Company can efficiently perform such needed service;

NOW, THEREFORE, in consideration of the mutual Agreement herein contained, it is agreed by and between the parties hereto as follows:

1. The Wisconsin Company will deliver from its local gas distribution facilities in Wisconsin to the adjacent contiguous and interconnected local gas distribution facilities of the Illinois Company situated in Illinois sufficient gas to meet the entire requirements of the Illinois Company for distribution to its gas customers and for use by the Illinois Company subject to terms, conditions or curtailment restrictions imposed on the Wisconsin Company by its suppliers of gas commodity supply and transportation.

2. For all gas delivered to the Illinois Company, the Illinois Company will pay the Wisconsin Company monthly for delivered natural gas, service and fixed costs as described below:

Item 1. Delivered natural gas costs, which shall be consistent with gas purchases made for the Wisconsin company, expressed in separate gas charges, expressed as a rate per million British Thermal Units (MMBTU) and applied to the applicable monthly Illinois Company MMBTU sales. All interdepartmental sales of gas will be priced at this same rate per MMBTU. Costs recoverable through the gas charges shall conform with allowable gas

costs prescribed in 83 Ill. Adm. Code 525. See Exhibit A, Formula 1.1 - 1.3 for detailed description of development of the three gas charges.

Item 2. Service costs consisting of gas distribution operations and maintenance expenses, customer service and accounts costs, sales promotion expenses and administrative and general charges are allocated monthly. Gas distribution O&M expenses, customer accounts and services expenses, sales promotion expenses and administrative and general expense are allocated based on customers. See Exhibit A, Formulas 2 through 5 for detailed computation of costs allocated.

Item 3. Rental expenses consisting of depreciation and property taxes are billed monthly. See Exhibit A, Formulas 6 and 7 for detailed computation of rental expenses. Net rate base located in Wisconsin but serving the Illinois Company is allocated to the Illinois Company for ratemaking purposes only. See Exhibit A, Formula 8 for detailed computation.

3. Month-to-month billings shall be based upon an estimate of the average costs for the current month, which may be adjusted during the year to reflect changes in costs, and shall be adjusted to actual costs for the month by the Wisconsin Company issuing a credit memorandum or additional billing not later than two months from the estimated month.

4. The Illinois Company will pay any and all taxes assessed against the Illinois Company's property or business and all expenses incident to matters of taxation, interest upon indebtedness and liabilities of the Illinois Company and expenses incident to such liabilities, and will accrue depreciation on its property; and the Illinois Company will pay expenses incident to the injuries and damages to the public and to the property of the Illinois Company, and any extraordinary operating and maintenance expenses, and any extraordinary expenses occasioned by strikes,

insurrections, riots, fires, explosions, disasters, or any other cause.

5. The Illinois Company will pay the Wisconsin Company that Company's actual cost of performing all other work and services not otherwise provided for herein including but not limited to release expenses.

6. This Agreement and any subsequent amendments thereto are subject to the approval of any regulatory body having jurisdiction in the premises.

7. The term of this Agreement is one year beginning the first day of \_\_\_\_\_, 1999, and this Agreement shall continue in effect from year to year thereafter unless and until either party, not less than one year prior to the expiration of the term or of any subsequent contract year, shall notify the other in writing of its determination to terminate the Agreement at the expiration of such term or year. The term of the Agreement may be reduced at any time conditioned upon mutual agreement by and between the parties, and subject to approval by regulatory authorities with jurisdiction.

8. This Agreement shall upon its effective date supersede all prior Agreements between the parties relating to the subject matter hereof, and this Agreement shall be binding upon and inure to the benefit of the successors and assignees of the respective parties hereto.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective proper officers, and their corporate seals to be hereunto affixed, as of the day and year first above written.

WISCONSIN POWER AND LIGHT COMPANY

By: \_\_\_\_\_  
Senior Vice President

By: \_\_\_\_\_  
Secretary

SOUTH BELOIT WATER, GAS AND  
ELECTRIC COMPANY

By: \_\_\_\_\_  
Senior Vice President

By: \_\_\_\_\_  
Secretary

Exhibit A

CONTRACT FOR GAS

Formula 1.1    Commodity Cost of Gas

Commodity Cost of Gas per MMBTU = A / B

where: A =    Cost of gas supply, including the carrying cost of gas in storage, of the combined Wisconsin and Illinois Companies, as delivered to the Wisconsin Company at its interconnections with ANR Pipeline and Northern Natural Gas Company, net of fixed costs of upstream pipeline and storage capacity, and net of federally-approved gas industry transition, Gas Research Institute and Annual Cost Adjustment charges.

B =    MMBTU of gas sold to all direct-purchase customers of the combined Wisconsin and Illinois Companies.

Formula 1.2    Fixed Costs of Gas (Maximum Daily Demand and Annual Demand)

Total Fixed Cost of Gas = Fixed annual costs of upstream pipeline and storage capacity of the combined Wisconsin and Illinois Companies, as may be changed from time-to-time.

Allocated Total Maximum Daily Demand Costs of Gas = Proportion of Total Fixed Cost of Gas allocated to Maximum Daily Demand utilizing the most-recently-authorized allocation percentage authorized by the Public Service Commission of Wisconsin, as may be changed from time-to-time. At the time of execution of the instant Agreement, 61.05 % of Total Fixed Costs of Gas are allocated to Maximum Daily Demand.

Allocated Total Annual Demand Costs of Gas = Proportion of Total Fixed Cost of Gas allocated to Annual Demand utilizing the most-recently-authorized allocation percentage authorized by the Public Service Commission of Wisconsin, as may be changed from time-to-time. At the time of execution of the instant Agreement, 38.95 % of Total Fixed Costs of Gas are allocated to Annual Demand.

Maximum Daily Demand Cost of Gas per MMBTU = A / B

where: A =    Allocated Total Maximum Daily Demand Costs of Gas of the combined Wisconsin and Illinois Companies, as contracted for by the Wisconsin Company with ANR Pipeline, Northern Natural Gas Company and other sellers of transportation and storage capacity.

B =    MMBTU of gas sold to all firm direct-purchase customers and transportation backup customers of the combined Wisconsin and Illinois Companies.

Annual Demand Cost of Gas per MMBTU = A / B

where: A = Allocated Total Annual Demand Costs of Gas of the combined Wisconsin and Illinois Companies, as contracted for by the Wisconsin Company with ANR Pipeline, Northern Natural Gas Company and other sellers of transportation and storage capacity.

B = MMBTU of gas sold to all firm and interruptible direct-purchase customers and transportation backup customers of the combined Wisconsin and Illinois Companies.

Formula 1.3 Federally-Approved Gas-Related Costs

Federally-Approved Gas-Related Costs = Non-gas costs which the interstate pipelines delivering gas to the Wisconsin Company are authorized to recover by the Federal Energy Regulatory Commission. At the time of execution of the instant Agreement, these costs include Gas Research Institute costs, Annual Cost Adjustment costs, Order 500 Take-or-Pay costs, Dakota Cost Recovery, and Order 636 Gas Industry Transition costs.

Individual Specific Federally-Approved Gas-Related Costs Shall Be Calculated Separately Where the Cost per MMBTU = A / B

where: A = Cost of individual specific federally-approved gas-related charges (as may be billed separately based on demand charges and volumetric charges) as billed to the Wisconsin Company by ANR Pipeline and Northern Natural Gas Company.

B = MMBTU of gas delivered to all direct-purchase and transportation customers of the combined Wisconsin and Illinois Companies.

Formula 2

Gas distribution operation and maintenance  
expenses =

$$(A + B) \times (C / (C + D))$$

where: A = Wisconsin Company gas distribution O&M expenses

B = Illinois Company Gas distribution O&M Expenses

C = Illinois Company average gas customers

D = Wisconsin Company average gas customers

Formula 3

Customer accounts and customer service  
expenses =

$$(A + B) \times (C / (C + D))$$

where: A = Wisconsin Company gas customer accounts and services expenses less  
uncollectible accounts

B = Illinois Company gas customer accounts and services expenses less  
uncollectible accounts

C = Illinois Company average gas customers

D = Wisconsin Company average gas customers

Formula 4

Sales promotion expenses =

$$(A + B) \times (C / (C + D))$$

where: A = Wisconsin Company gas sales promotion expenses

B = Illinois Company gas sales promotion expenses

C = Illinois Company average gas customers

D = Wisconsin Company average gas customers

Formula 5

Administrative and General  
expenses =

$$(A + B) \times (C / (C + D))$$

where: A = Wisconsin Company gas A&G, FICA and unemployment taxes less regulatory commission expenses

B = Illinois Company gas A&G, FICA and unemployment taxes less regulatory commission expenses

C = Illinois Company average gas customers

D = Wisconsin Company average gas customers

Formula 6

Rental expenses consisting of:

Depreciation expenses =

$$((A + B) \times (C / (C + D))) - B$$

where: A = Wisconsin Company gas distribution and general plant depreciation expenses plus related percent of gas-related common utility plant depreciation

B = Illinois Company gas distribution and general plant depreciation expenses

C = MMBTU of gas delivered to all direct-purchase and transportation customers of the Illinois Company

D = MMBTU of gas delivered to all direct-purchase and transportation customers of the Wisconsin Company

Formula 7

Rental expenses consisting of:

Property Taxes = Property Tax Rate x Property Tax Basis

where: Property Tax Rate = Wisconsin Property Tax Rate

and

where: Property Tax Basis =  $((A+B) \times (C/(C+D))) - B$

- where: A = Wisconsin Company gas distribution and general plant, plus an applicable percentage of gas-related common utility plant
- B = Illinois Company gas distribution and general plant
- C = MMBTU of gas delivered to all direct-purchase and transportation customers of the Illinois Company
- D = MMBTU of gas delivered to all direct-purchase and transportation customers of the Wisconsin Company

Formula 2

Rate base allocated to the  
Illinois Company =

$$((A + B + C) \times (D / (D + E))) - C$$

- Where: A = Wisconsin Company average net gas distribution and general plant, plus applicable percent of gas-related common plant
- B = Wisconsin Company average gas materials and supplies inventory
- C = Illinois Company average net gas distribution and general plant
- D = MMBTU of gas delivered to all direct-purchase and transportation customers of the Illinois Company less MMBTU of gas sold to the Wisconsin Company
- E = MMBTU of gas delivered to all direct-purchase and transportation customers of the Wisconsin Company less MMBTU of gas sold to the Illinois Company

(END)

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